Howard Johnson Company/Annual Report 1970

BUSINESS INF. BUR.
CORPORATION FILE

HOWARD JOHNSON'S
Red Coach Grill
TALLY-HO LOUNGE
Macaroni & Cheese
Ice Cream

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About the Cover

Our cover illustration depicts the theme of the 1970 Annual Report, "Building for the Future." Each block illustrates an important element in our future growth, as follows:

1. The Howard Johnson's Gate Lodge symbolizes quality lodging to millions of Americans.

2. Howard Johnson's restaurants, an American tradition, serve good food at reasonable prices to more people every year.

3. Our chain of luxury restaurants, Red Coach Grills, has undergone significant expansion over the past two years.

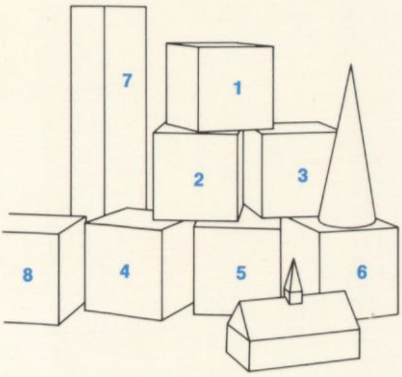
4. The first Howard Johnson's hotel and restaurant in Europe, located in the heart of Amsterdam, opened in 1970. More details about our international development program appear on page 11 of this Report.

5. Expansion of lodging and restaurant facilities at airport locations is an important part of the Company's future plans (See page 10).

6. Howard Johnson's markets its ice cream, frozen and canned products through supermarkets and other retail outlets.

7. The new "air rights" motor lodge over the Massachusetts Turnpike at Newton is one of many Howard Johnson's high-rise motor lodge-restaurant complexes already open or under construction in major metropolitan areas.

8. Howard Johnson's famous "28 Flavors" of ice cream remain a popular favorite among customers of all ages.

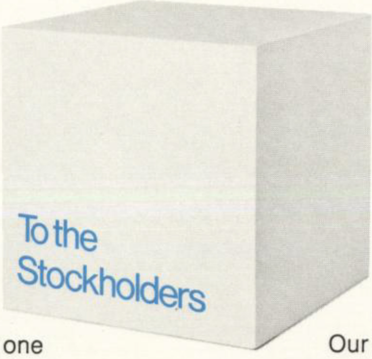


Financial Highlights

	1970	1969	Increase (Decrease)
Sales and Revenues	$291,791,000	$268,485,000	8.7%
Income Before Federal and State Income Taxes	23,066,000	17,529,000	31.6
Federal and State Income Taxes	11,650,000	8,500,000	37.1
Net Income	11,416,000(1)	9,029,000	26.4
Net Income Per Share (based on average shares outstanding during the year)	$1.14(1)	$ .90	26.7
Cash Dividends Declared Per Share	$ .24	$ .23	4.3
Depreciation	9,635,000	9,053,000	6.4
Fixed Asset Additions	16,630,000	23,197,000	(28.3)
Working Capital	30,809,000	17,130,000	79.9
Ratio of Current Assets to Current Liabilities	2.6	1.9	36.8
Stockholders' Equity Per Share (based on shares outstanding at end of year)	$9.92	$8.95	10.8

(1) Before extraordinary gain of $707,000 or $.07 per share.

To the Stockholders



The past year has been one of the most challenging, but most rewarding, in the history of your Company.

New records were established for both sales and earnings. Despite the slowdown in the nation's economy, we were able to achieve a 26 percent increase in net income on sales and revenues that were 9 percent higher than in 1969.

Net income for the year was $11,416,000 or $1.14 per share, up from $9,029,000 or $.90 per share a year ago. The 1970 results exclude an extraordinary gain from the sale of property of $707,000, or $.07 per share, in the first quarter.

The 1970 gain in net income resulted from opening of new units, selective menu price increases, higher room rates, a slower rise in food costs, and reductions in overhead expenses. New budgeting and control procedures, which helped to achieve the 1970 results, will be continued and improved in 1971.

Our expansion programs continued on target during 1970 as 38 Company and licensed Howard Johnson's restaurants were opened, including 29 adjacent to or within Howard Johnson's motor lodges. A total of 30 Company and licensed motor lodges opened for business during the year. Net changes in the restaurant and motor lodge totals for the year are shown in the Restaurant and Accommodations sections elsewhere in this Report.

Heavy emphasis is being placed on construction of restaurants which are adjacent to or part of Howard Johnson's motor lodges. While we will continue to open some restaurants without motor lodges, development of motor lodge-restaurant complexes will be the most important element in our expansion plans.

Our international licensing program progressed satisfactorily as our first operations in Canada, Europe and the Far East opened in 1970. License agreements were also signed for Howard Johnson's hotels and restaurants in Mexico, Barbados, and Jamaica.

We have taken appropriate steps to obtain the resources necessary to continue our expansion. During 1970 we borrowed $15,000,000 from banks and early in 1971 we hope to raise additional equity capital through the sale of 600,000 shares of common stock. These funds, along with our cash flow and available lines of bank credit, should provide for our expansion programs in 1971 and 1972.

There is a new discipline and new determination at Howard Johnson's. We want to grow and prosper in the exciting years ahead. And we are also committed to another essential goal—providing our customers with the finest possible products and services at reasonable prices.

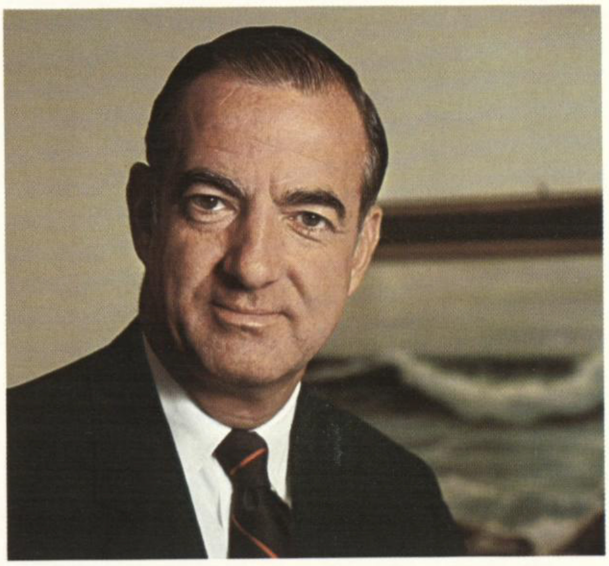
Our success in 1970 has resulted in great measure from the support of our 17,000 stockholders, licensed operators of 671 Howard Johnson's restaurants and motor lodges, 21,500 employees and millions of Howard Johnson's customers.

We will do our utmost to merit their continued confidence.

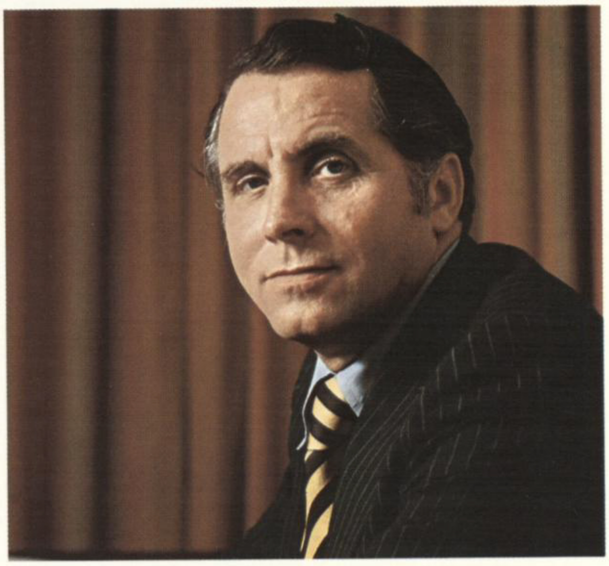
Howard B Johnson

Howard B. Johnson
Chairman of the Board and President

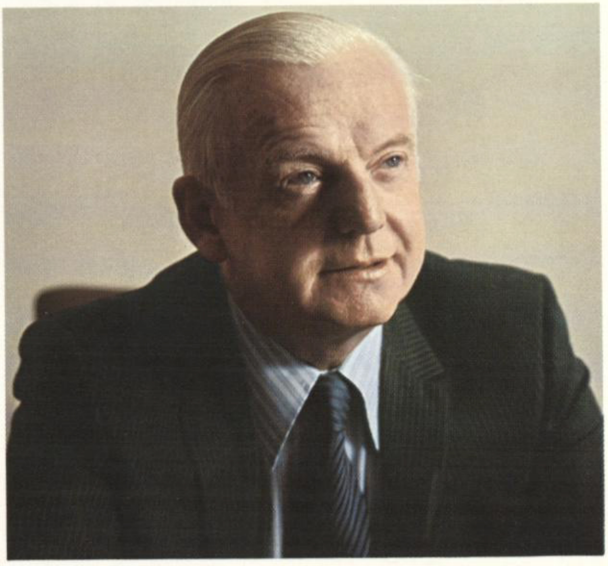
January 25, 1971



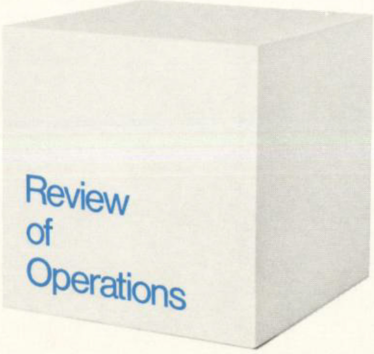
A. A. Stambaugh, Jr.
Executive Vice President
Operations and Administration



Daniel R. Shaughnessy
Executive Vice President
Finance



Eugene J. Durgin
Vice Chairman of the Board



Review of Operations

Day-to-day responsibility for performance of the Company's operating divisions, except Manufacturing and Distribution, rests with the Group Vice Presidents pictured on the facing page.

The Restaurant Group includes the eight Howard Johnson's Restaurant Divisions, Red Coach Grill Division and experimental Ground Round restaurants. Company-operated and licensed Howard Johnson's restaurants served several hundred million customers in 1970.

The Accommodations Group provides administrative services for all Company and licensed motor lodges and is responsible for operation of all Company lodging facilities. Howard Johnson's motor lodges provided quality lodging to more than 11 million travelers during the year.

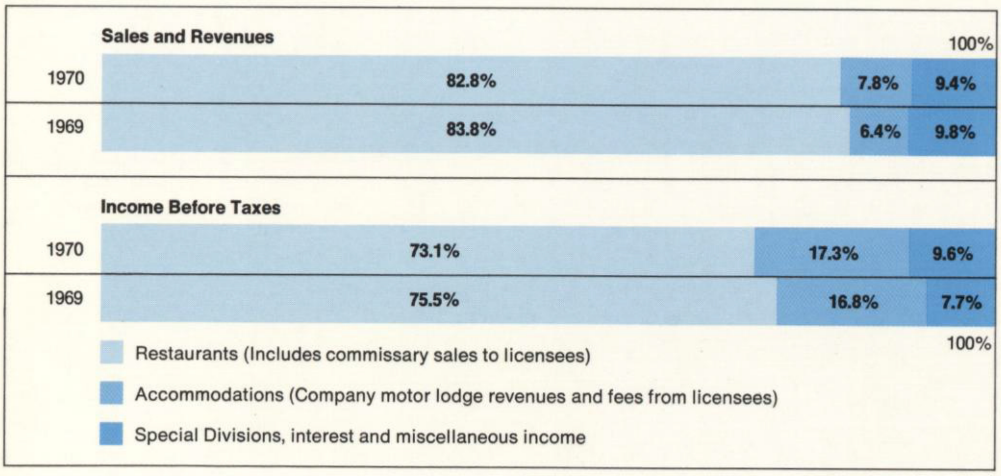
The Grocery Products, Automatic Merchandising and Beverage Divisions within our Special Divisions Group marketed numerous Howard Johnson's products to the public during the year. Landmark Supply, the Division responsible for procurement of motor lodge and restaurant equipment and furnishings, expanded its services to Company and licensed operations. While our Special Divisions account for only a small percentage of corporate sales and profits, they are nevertheless a valuable part of our overall marketing program.

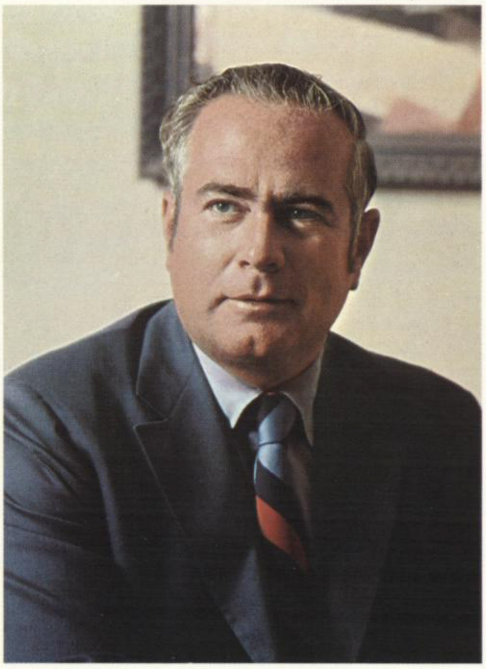
Manufacturing and Distribution operations include the food processing facilities and distribution centers which provide Company and licensed restaurants with a steady flow of products. The food processing plants also supply Howard Johnson's products for sale through supermarkets and other retail outlets.

Although airport and overseas motor lodges and restaurants represent a small part of our total operations, special sections on Airports and International Development are included in the Review of Operations to focus on the rather significant progress we have made in these important areas in 1970.

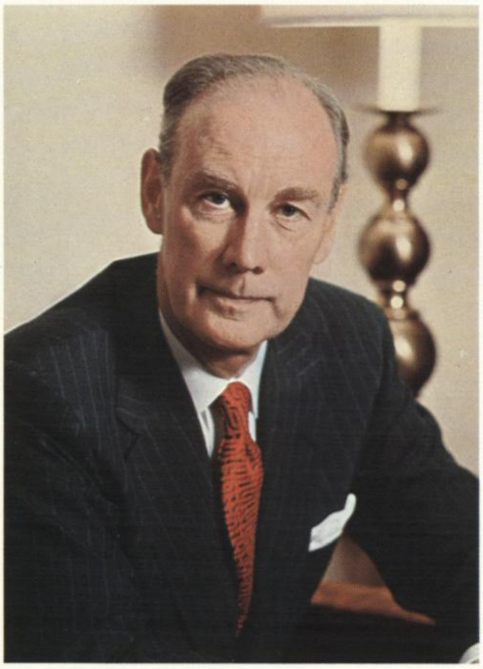
Our commitment to the Company's international licensing program is evidenced by the appointment of a Vice President-International Development in 1970 to direct licensed motor lodge and restaurant expansion outside the United States.

More detailed reports on our operations appear on the following pages.

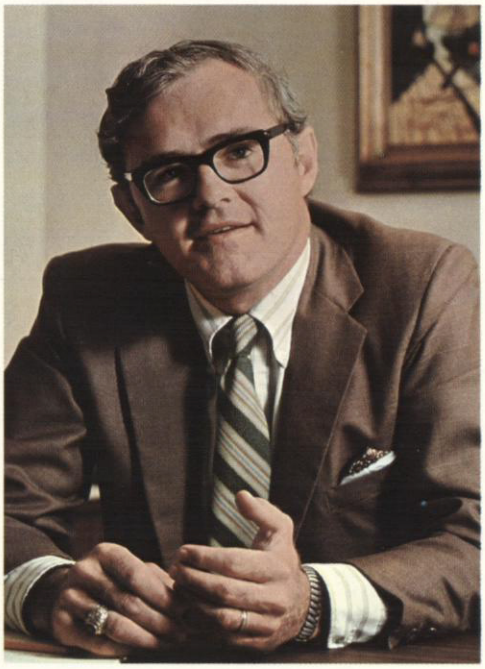




Frank M. Barrett
Group Vice President
Restaurants



Wallace W. Lee, Jr.
Group Vice President
Accommodations



Hugh J. Kelly
Group Vice President
Purchasing and Special Divisions

Restaurant
Group

Howard Johnson's Restaurants

Sales and profits were up for Howard Johnson's restaurants in 1970.

Profits increased as higher sales, stable food costs and improved operating controls resulted in better margins. Sales gains came primarily from the opening of additional units and selective increases in menu prices.

As of January 1, 1971, there were 866 licensed and Company-operated Howard Johnson's restaurants. Of this total, 420 restaurants were at motor lodge locations, including 294 operated by the Company and 126 by licensees. Nineteen restaurants were under construction as the year ended. Statistics for Howard Johnson's restaurants are shown in the table below:

	Number of Restaurants		
	Company Operated	Licensee Operated	Total
December 31, 1969.	535	303	838
Opened	30	8	38
Experimental Fast Food Units (opened prior to 1970)	4	—	4
Converted to Ground Round Restaurants	(3)	—	(3)
Closed	(3)	(8)	(11)
January 1, 1971 ...	563	303	866

The Company commenced operations in two additional restaurant locations on the Ohio Turnpike in 1970. We were also successful bidders for the operation of two restaurants to be built on the Maine Turnpike, replacing a restaurant which we now operate.

Construction is presently underway on another restaurant to be operated by the Company on the Massachusetts Turnpike.

In contemplation of planned future expansion, the Southeastern Division was split into two new divisions. The Miami Division includes the Howard Johnson's restaurants in Florida, while the Atlanta Division comprises our restaurants in North Carolina, South Carolina, Tennessee, Georgia, Alabama and Mississippi.

Major impetus for growth of restaurant units in Florida will come from the opening of Walt Disney World, near Orlando, late in 1971. Since virtually all new Howard Johnson's restaurants planned for Florida will be next to motor lodges, the potential benefits from Disney World are discussed in greater detail in the report on our Accommodations Group operations.

Marketing support for Howard Johnson's restaurants during 1970 was directed at our primary target audience—families with young children. Sponsorship of the American Rainbow series of quality children's specials on the NBC-TV network, tied to an extensive in-restaurant promotion, resulted in excellent exposure and increased sales. Complementing this effort, although geared more heavily toward adults, were special promotions aimed at providing good food and value to the consumer. Sustaining promotions, such as the popular "Fish Fry" and the newer "Sunday Family Dinner" have enjoyed excellent consumer acceptance. Our children's Birthday Club has been expanding in membership, with a growing contribution to sales. Outdoor billboard posters continued as an important factor in directing the public to our restaurants.

Current plans call for opening approximately 35 new Company and licensed restaurants in 1971. Many of these restaurants will be located in or adjacent to new motor lodges.

Fast Food Service

During the year, the Fast Food Service Division was dissolved and administrative responsibility for restaurants formerly part of the Division was transferred to the Howard Johnson's restaurant divisions in which they are geographically located. This change was dictated by the decision to concentrate future restaurant expansion in types of foodservice operation which offer greater potential to the Company.

Red Coach Grills

Although opening of new units resulted in increased sales for our Red Coach Grill chain of luxury restaurants, general economic conditions retarded sales and profit gains.

Four Red Coach Grills were opened in 1970, bringing the total number of units to 25 as of January 1, 1971. Twenty-three are operated by the Company.

The new facilities are in West Haven, Conn.; Oak Brook, Ill.; Latham, N.Y. and Newton, Mass.

A new unit at Warwick, R.I. went into operation in January, 1971. Red Coach Grills are under construction at Hauppauge, N.Y., and the Toronto, Canada International Airport.

Marketing support for the Division in 1971 will revolve around the successful "Diamond Jim Brady Night" (every Thursday from January through May). Inaugurated in 1970 at all Red Coach Grills in Massachusetts, "Diamond Jim" is a fun-filled, casual promotion offering Gay 90's atmosphere, excellent food and exceptional value. It has been expanded to Red Coach Grills in other states and will be followed by two new promotions later in the year.

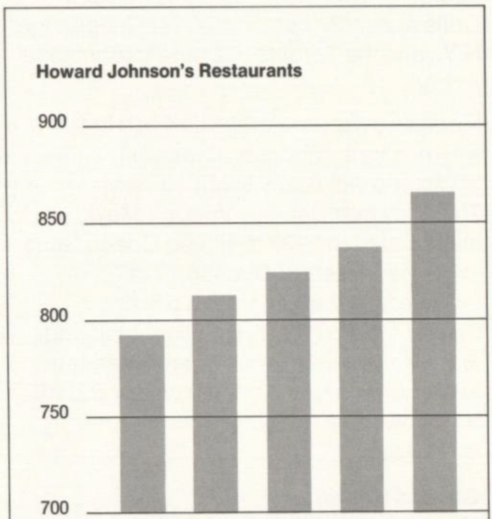
Ground Round

The experimental Ground Round restaurant concept was developed as a potential vehicle for converting some marginally profitable Company-operated Howard Johnson's restaurants into higher volume, higher profit operations.

Ground Round restaurants are designed to appeal to people of all ages, with particular emphasis on the 25-to-34-year-old group. They feature a half-pound hamburger (Ground Round) and beer by the mug and pitcher, served in an informal atmosphere. Other moderately-priced items on the limited menu include jumbo frankfurters, chicken, shrimp, fish and barbecued beef.

Based on the success of the first Ground Round, a converted Howard Johnson's restaurant in Norridge, Ill., three new units were opened in 1970. These included converted Company-operated Howard Johnson's restaurants in Rockford and Morton Grove, Ill. and a licensed Ground Round in Hauppauge, N.Y. The licensed unit was a conversion from an existing independent restaurant.

We plan to open several additional Ground Rounds in 1971.



Red Coach Grill
COCKTAIL BAR

The Ground Round

Accommodations Group

Profits for the Accommodations Group increased in 1970. Fees from licensed operations and revenues from Company lodges were up as a result of new motor lodge openings and higher average room rates.

Despite a slight decline in 1970, the occupancy rate for Howard Johnson's motor lodges remains substantially better than the average for the lodging industry.

As of January 1, 1971, there were 420 Howard Johnson's lodging facilities with 39,560 rooms in the United States and foreign countries. Of these, 52 motor lodges containing over 4,400 rooms are operated by the Company. Twenty-three Howard Johnson's motor lodges were under construction.

Expansion of Howard Johnson's motor lodges in 1970 is shown in the following table:

	Number of Motor Lodges		
	Company Operated	Licensee Operated	Total
December 31, 1969.	45	346	391
Opened	7	23	30
Acquired from Licensees	2	(2)	—
Transferred to Licensees	(2)	2	—
Closed	—	(1)	(1)
January 1, 1971	52	368	420

The "air rights" complex over the Massachusetts Turnpike at Newton, Mass. opened in June. It includes a licensed 275-room Howard Johnson's motor lodge, and a Company-operated Howard Johnson's restaurant and Red Coach Grill.

Construction is progressing on the 390-room licensed Howard Johnson's motor lodge being built as the tower of a 23-story complex in downtown Boston. In addition to the motor lodge and a Company-operated Howard Johnson's restaurant, the project includes two movie theaters, a shopping plaza and six levels of indoor parking.

Agreements were signed with two major credit card organizations—Diners Club and Master Charge—for use of their cards at all Howard Johnson's motor lodges. The Master Charge agreement extends to more than 35 million Master Charge cardholders the opportunity to charge lodging and related services at Company and licensed motor lodges. Similar agreements remain in effect with American Express, Humble Oil and Refining Company, Standard Oil Company (California) and Texaco, Inc.

Our computer-based Instant Host reservation system became fully operational during the year. Inaugurated in September, 1969, the system makes it possible for customers to reserve rooms through Howard Johnson's motor lodges or special reservation centers and receive confirmation in less than a minute.

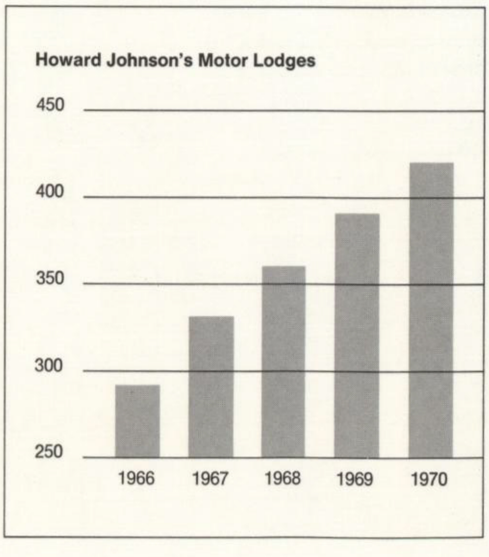
In March, 1970 we signed an agreement with the American Automobile Association to integrate our Instant Host reservation system with the AAA reservation system. The agreement enables 13 million AAA members to make room reservations at Howard Johnson's motor lodges through the AAA system.

One of the most exciting opportunities for Howard Johnson's motor lodges, near and long term, will be the opening of Walt Disney World in October, 1971. This family-oriented entertainment area near Orlando, Florida is expected to have more than ten million visitors in its first year of operation. We have established a special Disney World project team to develop programs aimed at maximizing benefits to the Company and its licensees.

Howard Johnson's is in a unique position to take full advantage of the opportunities presented by Disney World, since 85 percent of our Company and licensed motor lodges and restaurants are located East of the Mississippi. By the end of 1971, over 65 motor lodges and 90 restaurants are expected to be in operation in Florida—more than in any other state.

During 1971, our marketing program will place major emphasis on reminding business and personal travelers of the many reasons why they should stay at Howard Johnson's motor lodges. In addition, a cooperative highway billboard program is maintained for Company and licensed motor lodges, offering directional assistance to motorists and providing strong Howard Johnson's identification.

Our motor lodge expansion in 1971 is expected to approximate the 30 new lodges opened in 1970. Meanwhile, we are continuing to study new opportunities in the luxury and economy segments of the lodging industry.



HOWARD JOHNSON'S

Howard Johnson's Motor Lodge
over Massachusetts Turnpike
Newton, Mass.

instant host
HOWARD JOHNSON'S
RESERVATION SERVICE

Airports

HOWARD JOHNSON'S

HOWARD JOHNSON'S

Expansion of Howard Johnson's lodging and foodservice facilities at major airports continued as an important part of our overall growth in 1970.

The 381-room licensed motor lodge at the Newark, N. J. airport and 200-room Company-operated lodge adjacent to the Atlanta, Ga. International Airport opened during the year. Each includes a Howard Johnson's restaurant.

Our largest airport lodging facility, the 391-room licensed motor lodge at J.F.K. International Airport in New York, will open for business early in 1971.

The licensed motor lodge under construction at the Toronto, Canada International Airport is discussed in the International Development section.

As of January 1, 1971 there were 12 Company and licensed Howard Johnson's motor lodges, with 1,626 rooms, located near United States airports.

We have a continuing interest in development of Howard Johnson's motor lodges and restaurants near major airports because of the projected dramatic increase in air travel during the years ahead.

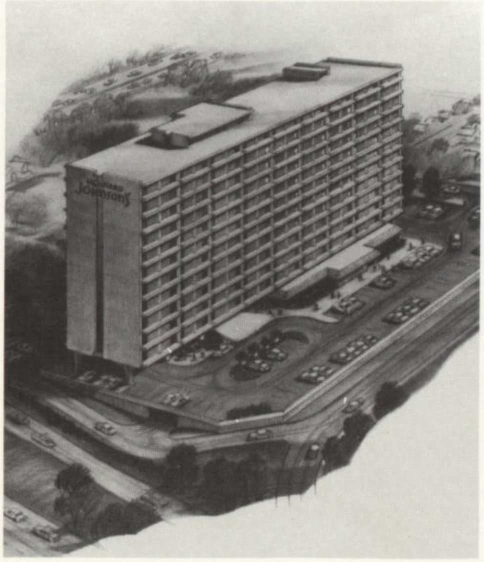
It is estimated that foreign travel by Americans will almost triple over the next ten years, providing increased market potential for Howard Johnson's motor lodges at U.S. airports as well as at international locations. In addition, the anticipated increase in domestic air travel by families in the United States should create a virtual new market for lodging facilities located near major airports.

Top, Left: Howard Johnson's Motor Lodge
Newark Airport
Newark, N.J.

Center, Left: Howard Johnson's Motor Lodge
Atlanta International Airport
Atlanta, Ga.

Below: Architect's Rendering of
Howard Johnson's Motor Lodge
J.F.K. International Airport
New York, N.Y.

ATLANTA
EASTERN
165



nternational

Substantial progress was recorded in our international licensing program during 1970.

A licensed Howard Johnson's hotel and restaurant in Amsterdam, Netherlands—the first in Europe—began operating in August. Part of a restoration project, the 176-room Amsterdam hotel consists of more than a dozen 350-year-old structures. Although it has been completely renovated to provide comfortable, modern accommodations, the hotel's architecture and decor are in keeping with the other 17th Century buildings in the area.

In August, a licensed Howard Johnson's restaurant, the first in Canada, opened in downtown Montreal. The 270-room Howard Johnson's motor lodge adjacent to the Toronto International Airport, including a Howard Johnson's restaurant and Red Coach Grill, will open in the spring of 1971. Construction is also underway on a Howard Johnson's motor lodge and restaurant in Moncton, New Brunswick.

During the year we signed an agreement with our Canadian licensee for manufacture of Howard Johnson's ice cream in Canada. The agreement provides for payment of royalties to the Company on the sale of Howard Johnson's ice cream through retail stores.

The Howard Johnson's Hotel in Djakarta, Indonesia opened early in 1970. The licensed operators of the Djakarta hotel also plan to build a Howard Johnson's resort hotel on the island of Barbados in the Caribbean.

Site selection is underway for the first units in a chain of Howard Johnson's motor lodges and restaurants in Mexico. The license agreement is with a group of Mexican business executives.

The Company was represented at Expo 70 in Osaka, Japan by a licensed limited menu Howard Johnson's restaurant, operated by a leading Japanese foodservice company.

We are continuing to seek license agreements with qualified businessmen throughout the world.

Top, Right: Howard Johnson's Restaurant
Montreal, Canada

Center, Right: Architect's Rendering of
Howard Johnson's Motor Lodge
Toronto International Airport
Toronto, Canada

Below: Howard Johnson's Hotel
Amsterdam, Netherlands

restaurant
Howard Johnson's
cocktails

Special Divisions

Grocery Products

Grocery Products Division sales and profits dipped in 1970, chiefly as a result of a shortage of clams for retail sale during the first half of the year. Production of fried clams resumed in July and the Division has made considerable progress in regaining distribution since that time.

Several new products were introduced into test markets this year. These included three new Toastee varieties (pound cake, orange and cinnamon-raisin) and a 20-ounce Macaroni and Cheese package.

Our ice cream business continued its steady growth and we plan to enter several additional major markets in 1971.

We carried out an extensive product cost analysis of our Grocery Products business during 1970. As a result of this study, we have developed new criteria to help assure that existing and new line items will provide an acceptable profit return.

A detailed consumer awareness study, completed in 1970, confirmed the strong link between the quality of Howard Johnson's restaurants and grocery products in the mind of the consumer. Future marketing programs will be aimed at capitalizing on this positive association.

Landmark Supply

Landmark Supply recorded another good year in 1970 as its expanded services resulted in substantially increased business from licensed operators.

The equipment and furnishings leasing program made available to licensed operators in 1969, met with continued acceptance. Under this plan, a financial institution leases equipment and furnishings to licensees with no risk to the Company.

Another of the special programs contributing to 1970 results was the complete refurbishing service offered by the Division. Through this program, licensees receive assistance from Landmark Supply with every phase of a project and obtain substantial savings through national contracts negotiated with equipment and furnishings manufacturers.

The Company and its licensees continue to derive important cost savings on equipment and furnishings for restaurants and motor lodges through the total procurement function carried out by the Division.

Below: The Landmark Supply Division procures equipment and furnishings for licensed and Company operations.

Automatic Merchandising

Sales and profits for the Automatic Merchandising Division increased as a result of contributions from vending operations begun in New York, Connecticut and Florida during 1969.

The Division, which operates vending machines at a number of Company and licensed Howard Johnson's restaurants and motor lodges, is expected to achieve further growth in Florida following the opening of Disney World late in 1971.

An important factor in the Division's 1970 performance was the substantial increase in the sale of Howard Johnson's canned soft drinks through vending machines at restaurants and motor lodges.

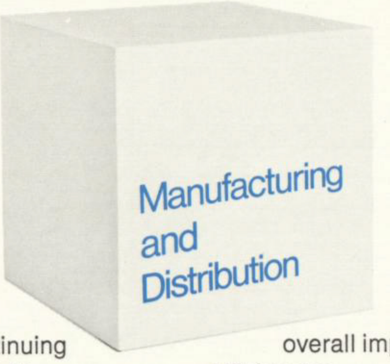
Beverage

The Beverage Division continued to provide canned Howard Johnson's soft drinks to our restaurants and to the Automatic Merchandising Division.

The Division also has contracts with three licensed bottlers who are producing a limited amount of Howard Johnson's carbonated beverages for retail sale.

Howard Johnson's
Macaroni & Cheese
Ice Cream
Clam Chowder
Fried Clams

Howard Johnson's
soft drinks



Manufacturing and Distribution

During 1970 we placed continuing emphasis on maintaining and improving the efficiency of existing manufacturing plants and distribution centers.

Progress continued on our computerized inventory control system. All distribution centers are now tied into the system and complete automation is expected to be achieved within the next 18 months. Full implementation of this system will result in improved service to our customers and better inventory controls.

We moved to a new and larger Los Angeles distribution center in November, 1970. This facility was leased to serve our expanding restaurant operations in California and other Western states.

At our Queens Village, N. Y. plant, we installed a modern system for automated handling of frozen food products designed to reduce handling costs and upgrade quality.

Operations at our Englewood, N. J. and Houston, Tex. ice cream manufacturing facilities were discontinued during 1970. Production formerly carried out at these plants has been transferred to other ice cream manufacturing plants with resulting overall improvement in operating efficiencies.

While our present production and distribution facilities are adequate to meet the Company's requirements, including planned expansion over the next several years, we will continue to upgrade existing operations in order to maintain an effective system for servicing our restaurants throughout the country.

happiness comes in 28 flavors
HOWARD JOHNSON'S

Howard Johnson Company
and Subsidiaries
Consolidated Balance Sheet

Assets		January 1, 1971 (Note 1)	December 31, 1969
Current assets:	Cash	$ 6,427,000	$ 7,651,000
	Short-term securities, at cost (approximate market)	16,814,000	1,471,000
	Accounts receivable, less allowance of $445,000 for doubtful accounts ($260,000 in 1969)	8,194,000	8,346,000
	Inventories of merchandise and materials, at lower of average cost or market	14,153,000	16,904,000
	Prepaid expenses	2,389,000	1,801,000
	Mortgage note receivable	2,505,000	—
	Total current assets	50,482,000	36,173,000
Fixed assets (Note 2):	Cost	133,502,000	120,807,000
	Accumulated depreciation	56,335,000	49,340,000
		77,167,000	71,467,000
Mortgage notes receivable and other assets		1,914,000	4,316,000
		$129,563,000	$111,956,000

Liabilities and Stockholders' Equity

		January 1, 1971 (Note 1)	December 31, 1969
Current liabilities:	Notes payable—portion due within one year (Note 4)	$ 5,274,000	$ 2,357,000
	Dividend payable	601,000	604,000
	Accounts payable and accrued expenses	11,741,000	15,596,000
	Federal income taxes	2,057,000	486,000
	Total current liabilities	19,673,000	19,043,000
Notes payable—portion due after one year (Note 4)		8,292,000	1,899,000
Deferred income taxes (Notes 2 and 3)		2,195,000	1,331,000
Stockholders' equity:	Common stock, par value $1 per share (Note 5): Authorized—12,000,000 shares Issued—10,019,177 shares	10,019,000	10,019,000
	Capital surplus	10,984,000	10,984,000
	Retained earnings	78,400,000	68,680,000
		99,403,000	89,683,000
	Lease commitments (Note 6)		
		$129,563,000	$111,956,000

Howard Johnson Company and Subsidiaries
Consolidated Statement of Income and Retained Earnings

	Fiscal year ended	January 1, 1971 (Note 1)	December 31, 1969
Sales and revenues:	Net sales	$282,069,000	$260,245,000
	Licensing and other income, excluding initial license fees received	8,902,000	7,456,000
	Initial license fees received	622,000	678,000
	Gain on disposals of fixed assets	198,000	106,000
	Total sales and revenues	291,791,000	268,485,000
Costs and expenses:	Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	110,464,000	106,150,000
	Selling, restaurant and motor lodge operating, administrative and general expenses, excluding depreciation	147,502,000	135,320,000
	Depreciation (Note 2)	9,635,000	9,053,000
	Interest	1,124,000	433,000
	Total costs and expenses	268,725,000	250,956,000
Income before federal and state income taxes		23,066,000	17,529,000
Provision for federal and state income taxes (Note 3)		11,650,000	8,500,000
Income before extraordinary gain		11,416,000	9,029,000
Extraordinary gain from the sale of real estate, less $315,000 applicable income taxes		707,000	—
Net income		12,123,000	9,029,000
Retained earnings at beginning of year		68,680,000	61,958,000
Cash dividends declared—$.24 per share in fiscal 1970; $.23 in 1969		(2,403,000)	(2,307,000)
Retained earnings at end of year		$ 78,400,000	$ 68,680,000
Income per average share of common stock outstanding (Note 5):			
	Before extraordinary gain	$ 1.14	$ .90
	Extraordinary gain, net of income taxes	.07	—
	Net income	$ 1.21	$ .90

Howard Johnson Company and Subsidiaries
Consolidated Statement of Source and Application of Funds

	Fiscal year ended	January 1, 1971	December 31, 1969
Source:	Net income before extraordinary gain	$11,416,000	$ 9,029,000
	Depreciation	9,635,000	9,053,000
	Deferred income taxes	864,000	576,000
	Total from operations	21,915,000	18,658,000
	Extraordinary gain	707,000	—
	Disposals of fixed assets	1,295,000	780,000
	Increase in non-current notes payable	6,393,000	—
	Decrease in other assets	2,402,000	—
	Proceeds from exercise of stock options	—	468,000
	Decrease in working capital	—	8,148,000
		$32,712,000	$28,054,000
Application:	Fixed asset additions	$16,630,000	$23,197,000
	Cash dividends declared	2,403,000	2,307,000
	Decrease in non-current notes payable	—	2,037,000
	Increase in other assets	—	513,000
	Increase in working capital	13,679,000	—
		$32,712,000	$28,054,000

Opinion of Independent Accountants

PRICE WATERHOUSE & CO.
225 FRANKLIN STREET
BOSTON 02110

To the Board of Directors
and Stockholders of Howard Johnson Company

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings and of source and application of funds present fairly the consolidated financial position of Howard Johnson Company and subsidiaries at January 1, 1971 and the results of their operations and source and application of funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

January 22, 1971

Price Waterhouse & Co.

Notes to Financial Statements

Note 1—Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Howard Johnson Company and its subsidiaries, all of which are wholly-owned.

During 1970 the Company changed the end of its fiscal year from December 31 to the Friday nearest December 31. Accordingly, the 1970 fiscal year ended January 1, 1971.

Note 2—Fixed Assets and Depreciation Policy

Fixed assets are stated at cost. The asset and accumulated depreciation accounts exclude fully depreciated assets still in use. The details of the asset accounts are summarized as follows:

	January 1, 1971	December 31, 1969
Land and land improvements	$ 11,726,000	$ 11,702,000
Buildings owned	12,785,000	10,797,000
Buildings and improvements on leased property	26,823,000	23,034,000
Restaurant and motor lodge equipment	70,044,000	62,970,000
Plant, office and transportation equipment	12,124,000	12,304,000
	$133,502,000	$120,807,000

For financial reporting purposes, depreciation is provided on the straight-line method for all depreciable fixed assets acquired subsequent to January 1, 1968. The majority of fixed assets acquired prior to that date are depreciated on the sum-of-the-years-digits method.

The sum-of-the-years-digits method of depreciation is being continued for federal income tax purposes and a provision for deferred income taxes has been made for the resulting reduction in taxes currently payable.

Note 3—Provision for Federal and State Income Taxes

A comparative summary of the provision for federal and state income taxes follows:

	1970	1969
Current provision	$10,854,000	$7,787,000
Additional federal surtax	270,000	763,000
Investment credit	(338,000)	(626,000)
Deferred (See Note 2)	864,000	576,000
	$11,650,000	$8,500,000

Note 4—Notes Payable

At January 1, 1971 the Company was obligated under notes payable summarized as follows:

	Portion due	
	Within one year	After one year
Notes payable to banks 7%, unsecured	$4,933,000	$6,767,000
Real estate and chattel mortgages, 5% to 7%	257,000	1,389,000
Other	84,000	136,000
	$5,274,000	$8,292,000

The aggregate amounts which mature in each of the years 1972 to 1975 are $4,860,000, $2,460,000, $136,000 and $156,000, respectively.

Note 5—Stock Options

The Company has stock options outstanding under several stock option plans. At the beginning of 1970 options to purchase 479,241 shares of the Company's common stock were held by executives and key employees of the Company and its subsidiaries. During 1970, no options were exercised, options to purchase 123,750 shares were granted and options for 134,536 shares lapsed. At January 1, 1971, the following options were outstanding:

			Total shares under option at January 1, 1971	
Year of grant	Year of lapse	Average price per share	Exercisable	Outstanding
1966	1971	$26.58	193,621	193,621
1967	1972	25.85	48,044	48,044
1968	1973	25.77	17,990	25,040
1969	1974	22.32	31,800	79,500
1970	1975	14.18	—	122,250
			291,455	468,455

Options become exercisable as to 40% of the shares one year from the date of grant, 70% after two years and 100% after three years. Under the terms of the plans, additional options for 56,234 shares may be granted at prices no less than 100% of their fair market value at the date of grant.

The exercise of stock options would not have resulted in a significant dilution of reported income per share for fiscal 1970 or 1969.

Note 6—Lease Commitments

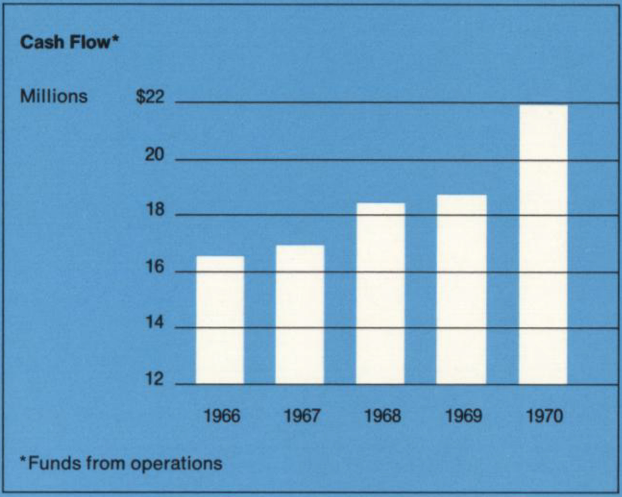
The aggregate amount of rentals charged to income in 1970 was $27,400,000 comprising real estate rentals under minimum annual rental and percentage-of-sales agreements and rentals of real estate, trucks and equipment under short-term lease arrangements. Minimum annual rentals under long-term leases, most of which expire in various years to 1994, are approximately $14,200,000, exclusive of $1,450,000 for restaurants and motor lodges currently under construction. Such minimum annual rentals are exclusive of taxes, insurance and other expenses in certain instances to be paid by the lessee.

The Company is also contingently obligated under leases, most of which expire in various years to 1995, relating to certain properties occupied by licensees. Minimum annual rentals under these leases amount to approximately $1,035,000.

Howard Johnson Company and Subsidiaries

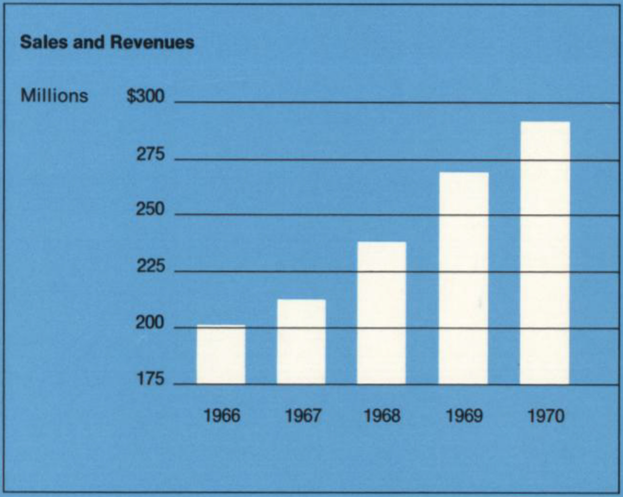
Ten Year Summary

(000 omitted)



Cash Flow*

*Funds from operations



Sales and Revenues

Earnings:	Sales and revenues
	Income before federal and state income taxes
	Federal and state income taxes
	Net income (1)
	Net income per share (1)
Other Financial Data:	Average number of shares outstanding (2)
	Cash dividends per share
	Depreciation (3)
	Fixed asset additions
	Total assets
	Working capital
	Ratio of current assets to current liabilities
	Stockholders' equity per share (2 and 4)
Number of Locations:	Howard Johnson's Restaurants
	Company
	Licensee
	Total
	Howard Johnson's Motor Lodges
	Units
	Company
	Licensee
	Total
	Rooms
	Company
	Licensee
	Total
	Red Coach Grills
	Company
	Licensee
	Total

(1) Before extraordinary gain of $707,000, or $.07 per share in 1970 and $1,814,000, or $.18 per share in 1968.
(2) Adjusted for subsequent stock dividends and the 100% stock distributions in 1966 and 1969.
(3) See Note 2 of Notes to Financial Statements.
(4) Based on shares outstanding at end of year.

1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
$291,791	$268,485	$237,415	$211,293	$200,092	$175,531	$152,798	$127,106	$113,476	$102,382
23,066	17,529	18,481	15,187	16,285	16,525	14,609	11,342	9,344	8,463
11,650	8,500	8,900	6,600	7,000	7,500	7,000	5,950	4,740	4,370
11,416	9,029	9,581	8,587	9,285	9,025	7,609	5,392	4,604	4,093
$1.14	$.90	$.96	$.87	$.94	$.93	$.79	$.56	$.48	$.43
10,019	10,009	9,957	9,894	9,834	9,728	9,650	9,626	9,624	9,620
$.24	$.23	$.20	$.075	—	—	—	—	—	—
9,635	9,053	8,602	8,285	7,210	5,723	4,529	3,515	3,069	2,826
16,630	23,197	13,858	12,831	18,587	14,136	10,598	10,556	6,657	4,521
129,563	111,956	107,138	101,535	90,633	75,670	60,223	49,335	41,598	36,721
30,809	17,130	25,278	26,295	19,862	17,362	12,949	9,180	10,448	9,590
2.6	1.9	2.3	2.3	2.1	2.1	2.0	1.8	2.1	2.1
$9.92	$8.95	$8.26	$7.28	$6.54	$5.50	$4.53	$3.72	$3.16	$2.68
563	535	509	484	457	419	372	325	300	279
303	303	316	329	336	331	336	338	338	337
866	838	825	813	793	750	708	663	638	616
52	45	29	14	9	5	1	—	—	—
368	346	331	318	283	239	209	166	139	111
420	391	360	332	292	244	210	166	139	111
4,450	3,560	2,220	1,030	650	390	60	—	—	—
35,110	32,170	30,280	28,650	24,440	19,580	16,800	13,240	10,470	8,010
39,560	35,730	32,500	29,680	25,090	19,970	16,860	13,240	10,470	8,010
23	19	17	17	18	17	15	14	12	11
2	2	1	1	—	—	—	—	—	—
25	21	18	18	18	17	15	14	12	11

Directors

Howard B. Johnson	Chairman of the Board and President
Eugene J. Durgin	Vice Chairman
Hoyt Ammidon	Chairman of the Board, United States Trust Company of New York, New York, N.Y.
Roger C. Damon	Chairman of the Board, First National Boston Corporation, Boston, Mass.
Charles M. Enders	Partner, F. S. Moseley & Co., New York, N.Y.
Fred Smith	Consultant, Office of the Rockefeller Family & Associates
A. A. Stambaugh, Jr.	Executive Vice President—Operations and Administration

Officers

Howard B. Johnson	President
A. A. Stambaugh, Jr.	Executive Vice President—Operations and Administration
Daniel R. Shaughnessy	Executive Vice President—Finance
Frank M. Barrett	Group Vice President—Restaurants
Wallace W. Lee, Jr.	Group Vice President—Accommodations
Hugh J. Kelly	Group Vice President—Purchasing and Special Divisions
Edgar L. Andlauer	Vice President and Treasurer
Lowry M. Bell, Jr.	Vice President—Architecture
Vivan E. Burks	Vice President—Industrial Relations
Francis C. Doherty	Vice President—Manufacturing
Eugene J. Durgin	Vice President and Secretary
Pierre L. Franey	Vice President—Executive Chef
Donald G. Friedl	Vice President—Corporate Planning
Frank D. Hall	Vice President and General Counsel
Americo J. Imperiali	Vice President
Frank J. Lionette	Vice President—Marketing
Jay M. Messer	Vice President—Real Estate
Raymond W. Smith	Vice President—International Development
Edward J. Gallagher	Controller
Norbert K. Carey	Assistant Controller
James A. Lucas	Assistant Controller
Joseph V. Cronin	Assistant Secretary

Counsel

Herrick, Smith, Donald, Farley & Ketchum,
Boston, Mass.

Independent Accountants

Price Waterhouse & Co.,
Boston, Mass.

Transfer Agents

The First National Bank of Boston,
Boston, Mass.
The Chase Manhattan Bank (N.A.),
New York, N.Y.

Registrars

State Street Bank and Trust Company,
Boston, Mass.
Manufacturers Hanover Trust Company,
New York, N.Y.

The Annual Meeting

of the stockholders will take place at 11:00 A.M. (E.D.T.) Monday, April 26, 1971 at the Howard Johnson's Motor Lodge located at exit 16 (south) on the Southeast Expressway, Boston, Mass.

Principal Executive Office

One Howard Johnson Plaza
Boston (Dorchester), Mass. 02125

HOWARD
Johnson's